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September 15, 2008

AGENDA ITEM 4d

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Issuance of General Pension Consultant Services
Spring-Fed Pool and Private Equity Consultant
Request for Proposals

II. PROGRAM: CalPERS Total Fund

III. RECOMMENDATION:

1. Approve the creation of a General Pension Consultant Spring-fed Pool. A competitive solicitation process (RFP) for these services will commence following Committee Approval of the specific services. These services will be presented to the Investment Committee in October 2008.
2. Approve the continued use of the General Pension Consultant pool for the back-up to the primary consultant and Committee's Infrastructure consultant.
3. Approve the creation of a stand alone contract for the Committee's Private Equity consultant. A competitive solicitation process (RFP) for these services will commence following Committee Approval of specific services. These services will be presented to the Investment Committee in October 2008

IV. ANALYSIS:

Background

The structure of the Committee's investment consulting resources is anchored by a primary consultant covering the entire investment portfolio augmented by specialist consultants for Real Estate and Private Equity. These three consultants are supported by a pool of general consulting resources to perform special engagements for the Board and staff.

The table below illustrates the structure of these investment resources.

| Firm | Function | Contract Type | Contract Termination Date |
|--------------------------------|---|--------------------------|----------------------------------|
| Wilshire Associates | Primary Consultant | Independent Solicitation | June 30, 2010 |
| PCA | <ol style="list-style-type: none"> 1. Back-Up to Primary Consultant 2. Primary Private Equity Consultant 3. Infrastructure Consultant 4. Special Projects | General Consultant Pool | June 30, 2009 |
| PCA Real Estate | <ol style="list-style-type: none"> 1. Primary Real Estate Consultant 2. Special Real Estate Projects | Independent Solicitation | June 30, 2010 |
| Callan Associates | Special Projects | General Consultant Pool | June 30, 2009 |
| Mercer Investment Consulting | Special Projects | General Consultant Pool | June 30, 2009 |
| RV Kuhns | Special Projects | General Consultant Pool | June 30, 2009 |
| Strategic Investment Solutions | Special Projects | General Consultant Pool | June 30, 2009 |

As noted above, the firms in the General Pension Consultant Pool provide a number of key services, including back-up services to the primary consultant, Private Equity, and infrastructure consulting services. Examples of the type of work performed by members of the current pool of consultants include: asset allocation and risk management consulting, investment market environments and performance summaries, master custody services assistance, second opinions, policy development and review on issues such as responsible contracting and divestment, and asset class strategic reviews.

In addition to the above consulting resources, independent pools of firms have been established to support the specialized needs of the Real Estate, AIM and Corporate Governance programs. In addition, staff is currently conducting an RFP for ILAC specialty consulting services. Firms in these specialty pools provide asset-type specific analytical services, accounting and valuation reviews, due diligence, and investment banking services.

Scope of Services for General Consultant Pool

The investment program has changed significantly in scale and complexity since 2003, when the last RFP for General Pension Consultant services was conducted. In addition, major program initiatives have included the following: a new Inflation-Linked Asset Class, increased policy allocation to private assets, transition to a global benchmark for Equities, increased use of internal management transition of the deferred compensation plans to the investment office, and expanded use of more complex investment strategies.

Staff has reviewed the consulting structures in use at a number of other state and international pension plans to understand their practices relative to consulting services. In addition, staff reviewed the recommendations from the November 2007 Brock Capital Group report of the role of investment consultants at CalPERS. Based on this analysis, staff proposes to expand and enhance the breadth and depth of the General Pension Consultant pool to correspond to our growth and complexity. A comprehensive listing of services will be presented in a future agenda item for approval. Services under consideration include: General Investment Analysis and Research, Strategic Analysis, Organizational and Structural Analysis, Performance Analysis and Benchmarks, and Asset Allocation.

This proposed structure will provide the Committee and the Investment Office with “general” investment consulting services as well as key functional investment consulting services. All services would apply across the entire investment portfolio as well as to an individual asset class. In addition the structure will be comprehensive enough to support the continuation of the role of back-up to the primary consultant as well as specialized consulting services such as infrastructure consulting.

Lastly, the blurring of the lines between asset classes as well as needs for due diligence services in nearly every investment program suggests a need for a Due Diligence pool that covers all asset types. At a future date, staff will bring back an Agenda Item presenting a structure for a due diligence pool of resources covering all investment types and investment programs.

Private Equity Consultant

Staff also recommends the creation of a stand alone contract for the Committee's Private Equity consultant, rather than the use of an engagement through the General Pension Consultant pool for this purpose. This would be consistent with the framework for the Committee's Real Estate consultant. The complexity and size of the AIM program supports an independent and separate contract for consulting services.

Time Frames

The current contracts for the General Pension Consultant Pool expire June 30, 2009. To ensure continued consulting services are available, a competitive solicitation must be conducted. In order for CalPERS to execute a contract with the successful firms prior to the expiration date, a Request for Proposal (RFP) must be initiated in October 2008. If approved, staff would also conduct a competitive solicitation for the Private Equity Consultant in October 2008.

Contracts for the Primary Consultant (Wilshire) and Real Estate consultant, PCA Real Estate Advisors do not expire until June 30, 2010. Subject to Investment Committee approval, two separate RFP solicitations will be conducted for these services in the fall of 2009.

Recommendations

Staff's recommendations are as follows:

- Approve the creation of a new General Pension Consultant Spring-fed Pool. A competitive solicitation process (RFP) for these services will commence following Committee Approval of the specific services. These services will be presented to the Investment Committee in October 2008.
- Approve the use of the General Pension Consultant pool for the back-up to the primary consultant and the Infrastructure consultant.
- Approve the creation of a stand alone contract for the Committee's Private Equity consultant. A competitive solicitation process (RFP) for these services will commence following Committee Approval of specific services. These services will be presented to the Investment Committee in October 2008.

V. STRATEGIC PLAN:

1. Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.
2. Goal IX, achieve long-term, risk-adjusted returns.

VI. RESULTS/COSTS:

The current budgeted amount for the General Pension Consultant Spring-Fed Pool is \$1,200,000 annually. Staff anticipates that the dollar amount may need to increase slightly for the new spring-fed pool. However, until the composition of the pool is known, an amount cannot be estimated. In addition, there will be additional costs for a Private Equity Consultant, estimated to be within \$300,000 - \$500,000 annually.

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